
C&C
YACHTS
ANNUAL REPORT 1978

C&C Yachts Limited
1226 White Oaks Boulevard
Oakville, Ontario   L6H 2B9

President's Report to the Shareholders

This was the first year in several without a major plant construction program, the three year growth plan having been completed with the opening in August, 1977 of our plant in Kiel, Germany. This brought our total number of manufacturing facilities to four, the original Niagara and Oakville, Ontario plants having been joined by Middletown, Rhode Island, in 1976.

With sales increased to $23.5 million, margins improved to 15.6% compared with 10.7% in the prior year, generating a pre-tax operating improvement of $745,000. As a result, the earnings decline experienced through the growth period was emphatically reversed and profit of 17 cents per share was realized.

The market was strong for larger boats (defined as over 30 feet) and our share of that market improved substantially, aided by heavy sales to the Caribbean charter fleets, particularly C&C 36 which maintained a high level of production through the summer and fall.

The market below 30 feet was weak, particularly in the United States, and some share was lost to lower priced competitors. Although production did not become available until late in the spring selling season, Mega 30 sold a total of 93 units in the third and fourth quarters which aided recovery of small boat market share by year end.

Closing inventories of finished yachts and yachts in process were high again, partly the result of small boat market weakness but also indicative of high levels of activity at year end. By December 15, 1978, heavy fall shipments reduced the inventories of most models; and steady sales committed much of the balance for shipments early in the New Year.

Serious attention has been given to our European operation which was a heavy burden through its first year of manufacturing. When the decision was taken to establish the plant in Kiel, the deutsche mark was at a value of 36 cents Canadian and today is valued over 60 cents. While this is partly the result of Canadian dollar weakness, the other side of the equation is the strength of the German currency which has had the effect of reducing the market area in which our German manufactured products can be competitively offered. Accordingly, yachts from our North American plants can now be realistically offered in the European market and a far more complete product line will be offered in Europe than was envisaged as recently as a year ago.

The Kiel plant continues to build C&C 30E according to demand, as this model was developed particularly for the German home market and has had good acceptance. Fifty-four have been delivered to date. European sales are expected to approach $4 million in 1978/79, of which about 60% will be North American built.

Our major market however, continues to be in the U.S.A. Recently published figures reveal that during the first six months of 1978, C&C Yachts Limited accounted for approximately 55% of all pleasure boat exports from Canada to the United States, regardless of type of boat. In our particular category of sailing craft valued at over $15,000, we accounted for approximately one-third of total U.S. imports from all countries. This level of accomplishment has been built gradually over many years and is something in which we take pride as exporters of Canadian technology and Canadian manufactures.

Subsequent to fiscal year end, a good offer was received for purchase of our Chicago retail operation. The sale was completed on terms which assure us of continuing high activity in this major market while freeing our own invested capital.

The gratifying improvement in our earnings has been the product of hard work by all personnel and is viewed as only a beginning. By mid 1979 the direct costs of our ambition will have been written off and the demands of growth on our time and energies have already lessened, with results as reported herein. The capability now exists for performance in the major markets of the world on a scale and with an efficiency unprecedented in our industry.

I am honoured to have worked with our enthusiastic employees, to whom I extend my thanks, and we are grateful for the support of our shareholders, suppliers, and customers.

George H. Cuthbertson,
Chairman and Chief Executive Officer.

Manufacturing

Niagara-on-the-Lake

Production commenced in the first quarter following a seven week strike which shut down operations in the preceding quarter. Recovery was steady during the first half and in spite of diminishing requirements for small boats, utilization of our largest facility was maximized.

New model introduction and short runs saw nine different models produced on five lines with an end result of 3.7 million pounds of product completed. Larger boat demand created requirements for such peaks as 16 C&C 34's to be produced in one month, resulting in improved margins. Restraint and flexibility were key factors during the year.

Rhode Island

Production in our U.S. facility was comprised of models 30 feet and under, thus the effect of the market was more evident. Production totalled 1.1 million pounds of finished product. Operations are being varied to pace inventory requirements and tooling or development is ongoing in anticipated start-up of revised new models. The transfer of the sales operations to Rhode Island created real savings in duty and administration.

An application for decertification of the Brotherhood of Carpenters and Joiners of America as sole bargaining agent was voted on and approved.

West Germany

During the year C&C 24 and Mega 30 were introduced into production, in addition to C&C 30E which has been ongoing for the past year. Although employment peaked at 80 hourly employees during the year, manufacturing has now been cut back to produce on an order basis only. Product supplied primarily from our Canadian plant will ensure a complete line to European dealers.

Custom Shop

Our Oakville custom plant continues to enjoy an appreciable backlog of orders. Landfall 42, which was our entry into the charter boat business, has opened a new frontier for C&C. EVERGREEN's success stimulated custom one-off business and the development of new design and tooling fills out a busy schedule, all leading to good profits. Last year saw eight custom 40's, six Landfall 42's, and two custom one-offs of over 40 feet completed.

Product selection will be employed to achieve maximum utilization of each facility. Continued small boat weakness in the marketplace is being overcome by product redevelopment at minimum cost and down time.

The major thrust in manufacturing over the next year is in systems and technology. Real gains are now evident from programs already implemented or under final review prior to execution. Centralized functions for a multi-plant operation, we are confident, will yield returns in material management and engineering. Investment of time in computer programming in fiscal 1978 will produce returns in the coming year in improved management information systems.

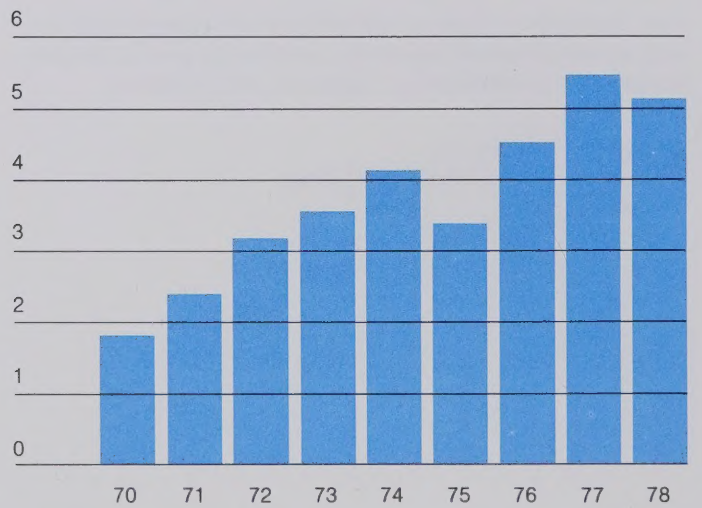
Of prime importance is C&C's return to new technology and advancement of 'state of the art' practices in boat building. With expansion of facilities behind us, and the challenge of utilizing our new found capacity before us, human resources are channelled in the direction of improved methods, quality, and ultimately, profits.

J. Robert Forsey
Vice-President, Manufacturing

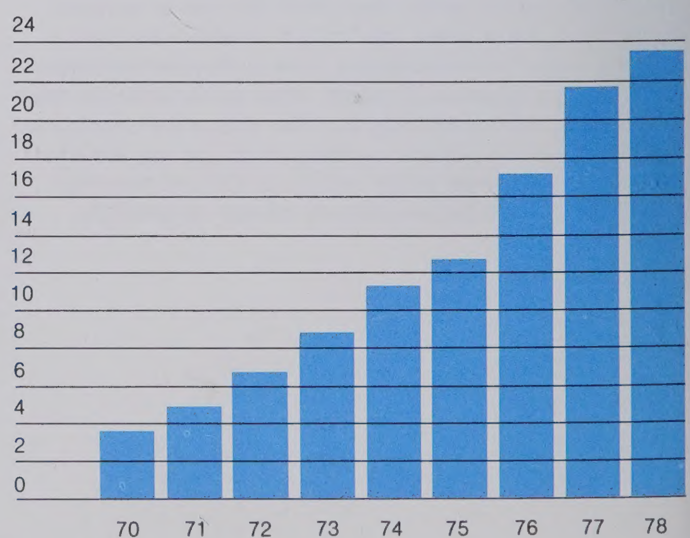
Marketing

The United States market continued to be the dominating factor in overall sales performance in fiscal 1978. It is expected that this trend, aided by the weakened Canadian dollar, will persist in 1979. Economic outlooks for the Canadian and United States markets dictate that growth must come from increased market penetration rather than overall market growth. To this end, major product and promotional changes have been undertaken, as well as a complete restructuring of the marketing and sales organization.

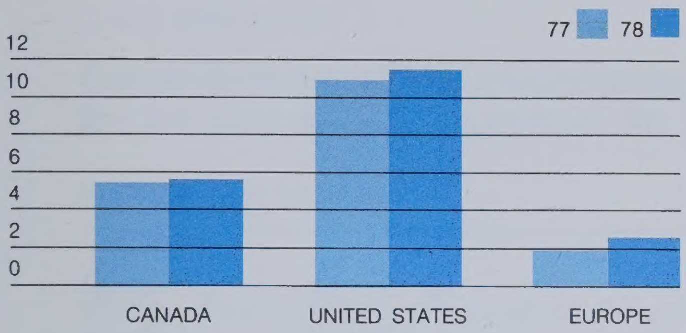
Dealer representation increased significantly in 1978 to 63 North American outlets. Plans call for a continuing focus on the development of geographic areas outside of C&C's traditional trading areas. In-field sales management positions across North America have been created in order to better service the emerging distribution system. Promotional plans place a heavy emphasis on the initiation of point-of-purchase



Sales (millions of pounds)



Dollar Sales ($ Million)



Geographic Sales Breakdown: Factory Value ($ Million)

oriented sales aids and dealer support and marketing programs. In recognition of high inflation rates, pricing policy has been changed to allow for quarterly adjustments, minimizing the risk of major price increases to both the company and the consumer. A new department, Custom and International Sales, has been established to deal specifically with custom boat sales and the sale of product to markets not penetrated by the North American distribution network.

The status of the Canadian dollar is a factor in the European market as well, affording an opportunity to complement the product line already available from the Kiel plant. A new sales organization is now in place in Germany, and a program of dealership expansion is underway. Currently, C&C product is represented in nine European countries.

The upward trend in larger boat sales at the expense of the smaller end of the market is expected to continue through 1979. Product improvement programs under the direction of the Design and Development Group were initiated in the latter half of 1978 to strengthen the company's presence in the small boat market. The new Encounter 26, as well as updates to C&C 24, C&C 27, C&C 29, and C&C 30, have now been implemented. Product line above 30 feet continues strong with encouraging demand for C&C 34, C&C 36, and C&C 38. A new 38-foot performance cruising boat is well along in development and will be available for delivery Spring 1979. Initial reaction to the boat is positive and it is expected that this model will further support share growth in the larger boat segment of the market.

The C&C 40 program proceeded on schedule with the delivery of six custom yachts to customers in the United States and Canada. Backed by a strong showing on international and local race courses, this project has now moved ahead with 13 additional units contracted by Custom and International Sales booking production into the summer of 1979. Several successful custom projects including EVERGREEN and the 52-foot WINDANCER were concluded during the past season and new projects are now ongoing in both the Design Group and Custom facility. Major inroads have been made into the North American charter boat markets, and a total of 34 C&C yachts will be available for charter by early 1979. Fiscal 1978 saw slow growth in the total market for sailing auxiliaries for the first time in several years. This, coupled with changing patterns within the market, necessitated a reordering of product, promotion, distribution, and support capabilities. Planning has now concluded and the implementation of new programs is well under way.

David M. Gee
Vice-President, Marketing

Financial

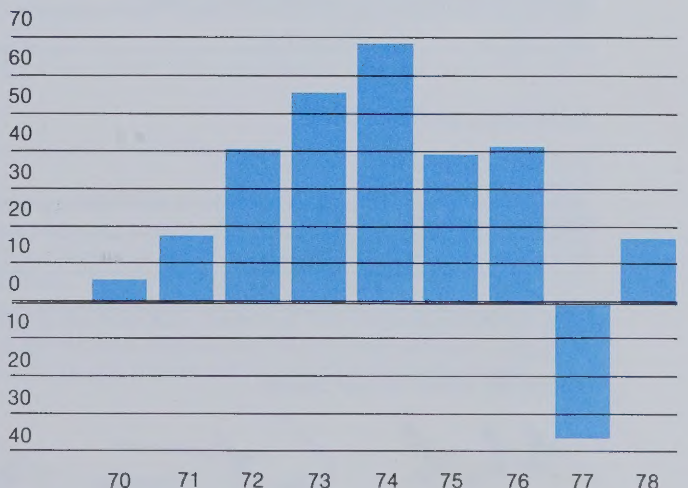
Volatile currency markets were a major factor affecting the company during 1978 as two-thirds of our sales are denominated in foreign currencies and nearly 50% of our yachts cross an international border on shipment to customers. We have minimized our exposure to foreign exchange by balancing assets and liabilities in the currencies concerned and by hedging future commitments with forward contracts. As noted in the financial statements, the value of fixed assets and term debt outside Canada is recorded at historic rates. At current rates these figures would be increased by over $0.5 million. Translation gains at year end added $151,000 to income.

With no major expenditures on new plant during 1978 or anticipated in 1979, we are concentrating on reducing debt and minimizing interest expense which, due to high interest rates and high inventory levels, will be a major factor in 1979. At the same time, a $1 million term loan has been negotiated and was drawn down after September 30, 1978 and new financing for export shipments to Europe is under way. During the year we negotiated a financing program for our United States dealers which provides them with greater capability to stock our yachts in the off season, providing improved customer exposure and delivery.

Finished yacht inventory levels at year end were higher than desirable even though 1977 figures were abnormally depressed due to strike action at our main factory in Niagara and are thus not directly comparable. This excess was primarily in Europe and we have reduced manufacturing activities at Kiel. Should our current plans to temporarily reduce manufacturing at that plant become permanent, grants provided by the State and Federal governments to C&C Yachts GmbH to finance construction of the plant in Kiel in 1977 and 1978, totalling 576,000 deutsche marks, may become repayable.

We have placed emphasis on improved cost control during the past year and the company's data processing centre at Niagara-on-the-Lake has installed systems to provide for better control of raw materials and production flows at that plant. Improved cost information and control is also generated. During 1979, these systems will be extended to our Rhode Island factory.

Michael F. K. Carter
Vice-President, Finance



Earnings* (loss) (¢/Share)
*excluding extraordinary items

C & C YACHTS LIMITED

Consolidated balance sheet as at September 30, 1978

ASSETS	1978	1977
CURRENT ASSETS		
Cash	$ 116,000	$ 26,000
Accounts receivable	2,078,000	1,572,000
Inventories (note 2)	7,205,000	4,170,000
Income taxes recoverable	—	285,000
Deposits and prepayments	172,000	102,000
	9,571,000	6,155,000
Mortgage receivable	—	252,000
Fixed assets (note 3)	4,986,000	4,898,000
Other assets and deferred expenses (note 4)	477,000	562,000
Excess of cost of shares in subsidiary companies over net book value at date of acquisition	2,493,000	2,493,000
	17,527,000	14,360,000

LIABILITIES		
CURRENT LIABILITIES		
Bank indebtedness (note 5)	3,835,000	1,626,000
Accounts payable and accrued liabilities	2,283,000	1,251,000
Deposits from customers	175,000	292,000
Long term debt due within one year	522,000	284,000
	6,815,000	3,453,000
Long term debt (note 6)	3,901,000	4,290,000
	10,716,000	7,743,000
Deferred income taxes	246,000	277,000
Grants on construction of Kiel plant (note 7)	254,000	230,000
	500,000	507,000

SHAREHOLDERS' EQUITY		
Capital stock (note 8)	3,987,000	3,953,000
Retained earnings	2,324,000	2,157,000
	6,311,000	6,110,000
	17,527,000	14,360,000

Signed on behalf of the board:

Robert Cant Director George H. Cuthbertson Director

Consolidated statements of earnings and retained earnings for the year ended September 30, 1978

STATEMENT OF EARNINGS	1978	1977
Sales	$23,468,000	$21,986,000
Cost of sales	19,796,000	19,553,000
Gross profit	3,672,000	2,433,000
Selling and administrative expenses	2,868,000	2,482,000
Interest expense—short term debt	288,000	202,000
long term debt	399,000	377,000
	3,555,000	3,061,000
Earnings (loss) before income taxes	117,000	(628,000)
Income taxes	50,000	283,000
Net earnings (loss) for the year	167,000	(345,000)
Earnings (loss) per share for the year	17 cents	(35 cents)

STATEMENT OF RETAINED EARNINGS		
Balance—beginning of year	2,157,000	2,620,000
Net earnings (loss) for the year	167,000	(345,000)
	2,324,000	2,275,000
Dividend	—	118,000
Balance—end of year	2,324,000	2,157,000

AUDITORS' REPORT TO THE SHAREHOLDERS

November 30, 1978

We have examined the consolidated balance sheet of C&C Yachts Limited as at September 30, 1978 and the consolidated statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at September 30, 1978 and the results of its operations and the changes in its financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Coopers & Lybrand Chartered Accountants

Consolidated statement of changes in financial position for the year ended September 30, 1978

SOURCE OF FUNDS	1978	1977
Provided from operations—		
Earnings (loss)	$ 167,000	$ (345,000)
Items not affecting working capital—		
Depreciation	844,000	535,000
Amortization of start-up and financing costs	141,000	140,000
Amortization of grants on construction of Kiel plant	(28,000)	—
Deferred income taxes	(31,000)	59,000
	1,093,000	389,000
Proceeds of long term debt	—	1,470,000
Grants on construction of Kiel plant	52,000	230,000
Proceeds on sale of mortgage	252,000	100,000
Issue of common shares	34,000	—
	1,431,000	2,189,000

USE OF FUNDS		
Purchase of moulds and other fixed assets	932,000	1,613,000
Other assets and deferred expenses	56,000	146,000
Reduction of long term debt	389,000	237,000
Dividend	—	118,000
	1,377,000	2,114,000
Increase in working capital	54,000	75,000
Working capital—beginning of year	2,702,000	2,627,000
Working capital—end of year	2,756,000	2,702,000

Notes to consolidated financial statements for the year ended September 30, 1978

1. ACCOUNTING POLICIES

The following is a summary of the significant accounting policies followed by the company:

a) Principles of consolidation

The consolidated financial statements include the operations of all subsidiary companies. In consolidation, all material inter-company accounts and transactions are eliminated.

b) Foreign exchange

Assets and liabilities in foreign currencies are translated as follows:
Current assets and liabilities at year end rates; long term assets and liabilities at rates prevailing at date of transaction; income and expenses at the average rate of exchange in effect during the year.

c) Inventory valuations

Finished yachts and yachts in process are valued at the lower of cost and net realizable value. Raw materials and supplies are valued at the lower of cost and replacement cost with cost determined on the first-in, first-out basis.

d) Depreciation

The company depreciates the cost of its buildings, machinery and equipment over their estimated useful lives by annual charges to operations, using the reducing balance method at the following rates:

Buildings: 5 percent   Machinery and equipment: 20 percent   Automotive equipment: 30 percent

Mould costs are charged to operations over the estimated marketing life of the model on a straight line basis.

e) Research and development

Research and development expenditures are charged to income as incurred.

f) Deferred expenses

Costs related to start-up and financing of new manufacturing facilities are deferred and amortized. Start-up costs for the plant in Kiel, West Germany are being written off over an 18 month period which commenced in October, 1977. Financing costs are amortized over the life of the loan to which they relate.

2. INVENTORIES

	1978	1977
Finished yachts	$3,280,000	$1,219,000
Yachts in process	1,169,000	769,000
Raw materials and supplies	2,756,000	2,182,000
	7,205,000	4,170,000

3. FIXED ASSETS

	1978			1977
	Cost	Accumulated depreciation	Net	Net
Land	$ 437,000	$ —	$ 437,000	$ 434,000
Buildings	3,246,000	623,000	2,623,000	2,706,000
Machinery and equipment	1,561,000	735,000	826,000	806,000
Moulds	1,509,000	596,000	913,000	762,000
Leasehold improvements	247,000	60,000	187,000	190,000
	7,000,000	2,014,000	4,986,000	4,898,000

4. OTHER ASSETS AND DEFERRED EXPENSES

	1978	1977
Loan to shareholder trust	$ 119,000	$ 85,000
Funds in trust for service of Rhode Island debt	164,000	164,000
Unamortized financing costs	94,000	107,000
Deferred start-up expenses	65,000	193,000
Other	35,000	13,000
	477,000	562,000

5. BANK INDEBTEDNESS

Bank indebtedness and bank loans are secured by general assignments of book debts, specific charges on certain fixed assets, and floating charge debentures over the remaining assets of the company and its subsidiary companies.

6. LONG TERM DEBT

			1978	1977
C&C Yachts Limited				
Term bank loan	DM 655,000	(note 5)	$ 316,000	$ 370,000
C&C Yachts Inc.				
Rhode Island Port Authority 8% Industrial Revenue Bonds	US$1,425,000	a)	1,474,000	1,509,000
Term bank loan	US$ 912,000	(note 5)	940,000	986,000
C&C Yachts Manufacturing Limited				
Term loan—12¾%		b)	988,000	1,045,000
C&C Yachts GmbH				
Mortgage—7.636%	DM1,315,000	c)	604,000	574,000
Loan—interest free	DM 200,000		101,000	90,000
Total amount outstanding			4,423,000*	4,574,000
Less: due within one year			522,000	284,000
			3,901,000	4,290,000

*As stated in note 1, the long term debt in foreign currencies is translated at the rate prevailing at date of transaction. If the debt were translated at year end rates, the total amount outstanding would be $5,088,000.

a) In 1975, the Rhode Island Port Authority purchased land and constructed a plant for the company at Middletown, Rhode Island. The Authority financed the plant by the issue of bonds repayable in instalments over a 20 year period. C&C Yachts Inc. rents this facility on a net lease basis for annual payments sufficient to fully service the debt, and will purchase the facility for $1 on repayment of the debt. C&C Yachts Limited and C&C Yachts Manufacturing Limited have guaranteed the obligations of C&C Yachts Inc. under this agreement. Under terms of the financing agreement, an amount equal to one year's debt service is required to be deposited with the trustees.

b) Secured by mortgage on land, buildings and equipment at that company's plants in Niagara-on-the-Lake and Oakville, Ontario, and a subordinated floating charge. Due December, 1980.

c) Secured by first mortgage on land, buildings and equipment at that company's plant at Kiel, West Germany. Repayable over 18 years commencing in December, 1978.

d) Principal repayment requirements on long term debt over the next five years are as follows:

	Cdn.$	U.S.$	Deutsche marks
1979	58,000	240,000	294,000
1980	58,000	245,000	296,000
1981	872,000	250,000	459,000
1982	—	255,000	68,000
1983	—	177,000	70,000
1984 and beyond	—	1,175,000	983,000
	988,000	2,342,000	2,170,000

7. GRANTS ON CONSTRUCTION OF KIEL PLANT

Grants were provided to C&C Yachts GmbH at the time of construction of the Kiel plant and are being taken into income over the life of the plant and equipment. Plans to temporarily reduce production from this plant may cause these grants to be repayable if certain commitments are not met.

8. CAPITAL STOCK

Authorized 2,000,000 shares without par value. Issued and fully paid 998,000 shares (1977-986,000).

During the year the company issued 12,000 shares to a trust for the benefit of key officers of the company at a price of $2.80 which was the market price of the shares at the time. An interest free loan, which matures within five years, was provided to the trust to finance this purchase.

9. ADDITIONAL INFORMATION

a) Translation gains

Earnings before income taxes include translation gains on conversion of assets and liabilities expressed in foreign currencies of $151,000 in 1978 ($114,000 in 1977).

b) Income taxes

Current income taxes for the year ended September 30, 1978 have been reduced by $15,000 resulting from investment tax credits and by $41,000 resulting from the 3% inventory allowance.

c) Remuneration of directors and officers

Remuneration paid by the company and its subsidiary companies to the directors and senior officers (as defined by The Business Corporations Act) was $260,000 in 1978 ($220,000 in 1977). In addition, consulting fees of $44,000 have been paid in 1978 to a company controlled by a director and senior officer.

Corporate Information

Head Office
C & C YACHTS LIMITED
1226 White Oaks Boulevard
Oakville, Ontario L6H 2B9

Subsidiaries
C & C YACHTS
MANUFACTURING LIMITED
526 Regent Street
Niagara-on-the-Lake
Ontario L0S 1J0

1490 Speers Road
Oakville, Ontario L6L 2X6

C & C YACHTS INC.
Box C, Oliphant Lane
Middletown, Rhode Island
02840

C & C YACHTS GmbH
C & C YACHTS GmbH & Co. Kg.
Bunsenstrasse 1
2300 Kiel 14
West Germany

C & C YACHTS
DEVELOPMENT LIMITED
1226 White Oaks Boulevard
Oakville, Ontario L6H 2B9

Auditors
Coopers & Lybrand
Chartered Accountants
145 King Street West, Toronto

Legal Counsel
Messrs. Miller, Thomson,
Sedgewick, Lewis & Healy
7 King Street East, Toronto

Transfer Agent and Registrar
Canada Permanent Trust Company
20 Eglinton Avenue West, Toronto

Lithographed in Canac